



RED OWL
STORES, INC.

30th

*Anniversary
Annual Report*

1951 ★ 1952



30th Anniversary Annual Report

RED OWL STORES, INC.

GENERAL OFFICES • HOPKINS, MINN.

BOARD OF DIRECTORS

FORD BELL	<i>Wayzata, Minn.</i>
ALF L. BERGERUD	<i>Minneapolis, Minn.</i>
J. C. CORNELIUS	<i>Minneapolis, Minn.</i>
JOHN Y. DEAR	<i>Minneapolis, Minn.</i>
GLENN R. GRIFE	<i>Minneapolis, Minn.</i>
RICHARD L. KOZELKA	<i>Minneapolis, Minn.</i>
W. C. METZGER	<i>Minneapolis, Minn.</i>
J. F. RINGLAND	<i>Minneapolis, Minn.</i>
HENRY C. STEPHENSON	<i>Minneapolis, Minn.</i>
H. J. WORRELL	<i>Hopkins, Minn.</i>

OFFICERS

FORD BELL	<i>President</i>
GLENN R. GRIFE	<i>Executive Vice President</i>
ALF L. BERGERUD	<i>Vice President</i>
JOHN Y. DEAR	<i>Vice President</i>
W. C. METZGER	<i>Vice President</i>
H. J. WORRELL	<i>Vice President</i>
HENRY C. STEPHENSON	<i>Treasurer and Asst. Secy.</i>
J. T. SYDNESS	<i>Secretary and Asst. Treas.</i>
RICHARD H. WHITE	<i>Assistant Secretary</i>
T. R. BOHNET	<i>Assistant Vice President</i>
F. D. SCOTT	<i>Controller</i>



Executive Offices: 215 E. Excelsior Avenue,
Hopkins, Minn.—Mailing Address: Post
Office Box 1128, Minneapolis, Minn.—Stock
Transfer Agent: Northwestern National Bank of Min-
neapolis.—Auditors: Peat, Marwick, Mitchell & Co.

Our 30th year's work

We received from the sales of goods and services \$89,833,893

We paid for merchandise, transportation, handling costs, rents, maintenance, and general operating expenses other than pay-rolls 79,205,794

We paid to our employees in wages and salaries, and for other employee benefits including social security, retirement income and group insurance 8,313,961

We set aside for depreciation and amortization of fixed assets and leasehold improvements 593,869

We set aside for federal and state taxes on income 988,000

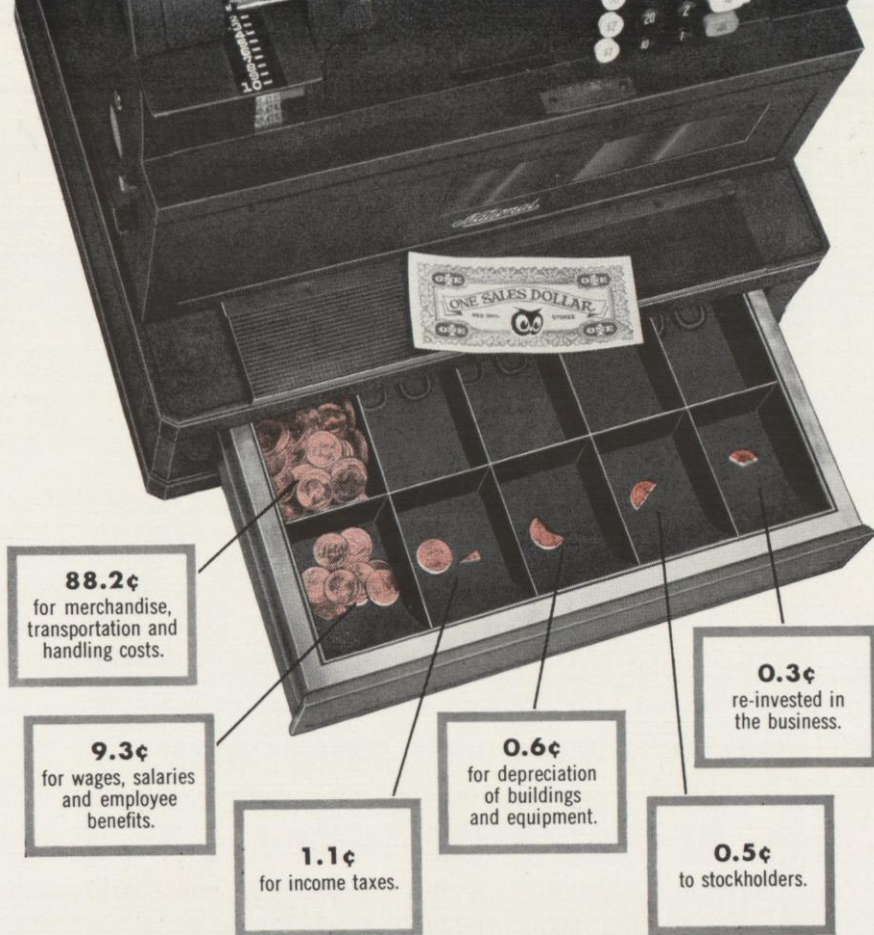
This left us as earnings 732,269

Out of these earnings

We paid to our preferred stockholders as dividends \$ 55,459

We paid to our common stockholders as dividends 413,340

And we reinvested in the business 263,470



How the Sales Dollar was divided



To our
stockholders
and employees



FORD BELL
President and General Manager since 1936

The thirtieth year of your Company has been one of continued favorable aspects in spite of the impact upon net earnings of complex government price regulations and increased rates of taxes on income. Sales, again the highest in the history of the Company, undoubtedly would have resulted in improved net earnings except for the unfavorable factors mentioned. The development of point of sale locations progressed in accordance with pre-established policy. Stockholders continued to receive regular quarterly dividends. Our customers appear to be

more favorably impressed with our stores and merchandising policies than ever before. The working capital of the Company was strengthened during the year by long-term borrowing and, as shown by the year-end balance sheet, is very favorable. The increase in merchandise inventories is due principally to increased volume requirements. Every effort is made through budgetary controls to maintain balanced stocks of merchandise and to provide maximum turnover.

WE SOLD MORE THAN EVER...

Sales of goods and services for the fiscal year ended March 1, 1952 were \$89,833,893 an increase of \$11,712,814 or 14.99% over the previous year. Of that figure, retail sales were \$65,340,696, a gain of 18.03%, and wholesale sales were \$24,493,197, an increase of 7.61%. Although higher prices account for a part of the retail sales increase, a substantial portion can be attributed to increased tonnage both in existing stores and new super

markets opened during the year. The increase in sales at wholesale was due largely to a general volume and price increase, and partly to the opening of a number of new accounts.

... BUT WE EARNED LESS

The consolidated current earnings before taxes on income were \$1,720,269 compared with \$2,157,583 the previous year. Net income after such taxes amounted to \$732,269 or $\frac{4}{5}$ cents per sales dollar compared with \$1,046,583, or $1\frac{1}{3}$ cents per sales dollar the previous year. This decrease is consistent with a general trend within the retail food industry. The Company has adhered to a program of expense control in an attempt to partially offset the gross profit margin decline. Based on shares outstanding at the year-end, earnings were \$1.63 per share of common stock after meeting preferred stock requirements compared with \$2.41 the previous fiscal year. 1,417 shares of preferred stock were converted to

common stock as provided in the issue, which resulted in a change in the outstanding common stock from 405,154 shares to 414,884 shares.

WE PAID DIVIDENDS FOR THE 18TH CONSECUTIVE YEAR

During the year stockholders received a return of \$468,799 on their investment in Red Owl. Preferred shareholders received \$55,459, at the rate of \$4.75 per share, and holders of common stock received \$413,340, equivalent to \$1.00 per share.

ABOUT THE EMPLOYEES

The Red Owl family has continued to grow to more than 2300 full-time and about 800 regular part-time people. A total of \$7,944,471 was paid in salaries and wages, or approximately 9 cents of every dollar received from sales of merchandise.

The majority of our employees and their families participate in a Group Insurance and Hospitalization

plan adopted in 1928. This is a voluntary participation plan in which a portion of the premium is contributed by the employee and the remaining cost borne by the Company. The plan was amended during the current year to provide increased benefits, particularly for dependents.

Red Owl has an insured retirement compensation plan, established in 1945, the premiums of which are paid entirely by the Company. Annual premium payments are made for all eligible employees, including those in the armed forces whose benefits continue to accrue during their leave of absence.

ABOUT THE OFFICERS AND DIRECTORS

At the last annual meeting, the shareholders increased the Board of Directors from nine to ten members. All members of the previous year's Board were re-elected and W. C. Metzger, Vice President of Retail Operations, was elected as the tenth. Seven of the directors are officers

of your Company and have many years experience in the food business. In addition, we are fortunate in having three directors who bring to the Board valuable varied experience and judgement; namely, Joseph F. Ringland, Chairman of the Board and President of Northwestern National Bank of Minneapolis; John C. Cornelius, Executive Vice President of Batten, Barton, Durstine and Osborn, Inc.; and Richard L. Kozelka, Dean of the School of Business Administration of the University of Minnesota.

We think it significant that the average age of the officers is 48, and that they have an average length of service of 19 years.

WE SOLD MORE TO MORE PEOPLE

Our industry has been operating under price controls which contained many inequities and, up to this time, relief has not been forthcoming. Mounting taxes and climbing operating expenses have also contributed to difficulties in the operation of the low margin distribution

system incident to our particular type of business. The Office of Price Stabilization has seemingly failed to recognize the critical effects of lower profit margins and increasing expenses in administering price control laws. In an attempt to offset the pinch of narrow margins a more aggressive merchandising program was put into effect to speed the movement of goods. We have continued modernizing our stores in an effort to draw more customers. We have closed or sold several low volume, marginal locations and put the investment to better use in higher potential volume super markets. Stores sold are usually converted to locally owned Red Owl Agency accounts. It is our policy to continue the trend toward larger units.

The Board of Directors has authorized acquisition of a limited amount of land for desirable future retail locations. This land will be sold to the building owner at the time of store construction. A significant factor, to be taken into account when selecting sites, is that ap-

proximately three times the area of the sales floor is required for customer parking.

New super markets were opened in Mankato, St. Louis Park, and Detroit Lakes, and enlarged modern super markets replaced those previously existing in Brainerd, Green Bay, Antigo and Bismarck. We now have 179 corporate stores—two less than a year ago, and 559 agency customers—thirteen more than a year ago. We believe we have kept pace with competition and with our own high standards of maintaining clean, pleasant store surroundings, of furnishing friendly, courteous service, and of providing quality merchandise to our customers at lowest possible prices.

LOOKING AHEAD

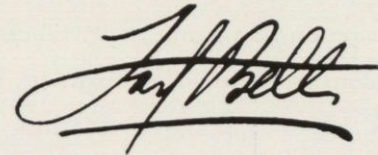
In this report, commemorating the thirty years of progress of Red Owl Stores, Inc., we have set forth certain significant facts in its growth and development.

In the year ahead, the highest sales in the Company's history are anticipated. An improvement in earnings will, to some extent, be contingent upon the possibilities of better gross margins, and upon future rates of taxes on income. Conversely, we must take advantage of every opportunity to improve earnings by increased volume, greater operating efficiencies, and use of budgetary controls.

It is our plan to continue the development program whenever suitable locations can be found under favorable lease arrangements. Approval has been received from government agencies to proceed with construction of the new warehouse in Green Bay, Wisconsin, and arrange-

ments for its financing are now under way. It will be a one-level building containing approximately 300,000 square feet—large enough to hold three to four trainloads of Red Owl products.

In closing, the Management wishes to express its gratitude to all those people who have participated in the development and progress of your Company since its beginning thirty years ago—customers, employees, suppliers, stockholders, officers and directors.

A stylized, handwritten signature in dark ink, appearing to read "Jay Bell". The signature is fluid and cursive, with a long horizontal stroke extending from the end.

PRESIDENT



30 Years with Red Owl

Thirty years ago, on May 20, 1922, the first Red Owl store was opened in Rochester, Minn. The next year, when the Company's first warehouse opened in Minneapolis, there were 11 stores in operation. After that, your Company's growth was rapid and steady. In 1940, when we opened our first super-market in Fargo, N.D., there were 178 stores; our peak of 229 retail stores in operation was attained in 1947. In keeping with the trend toward super-markets to replace small, low-volume stores, the number of our retail stores has since diminished to 179.

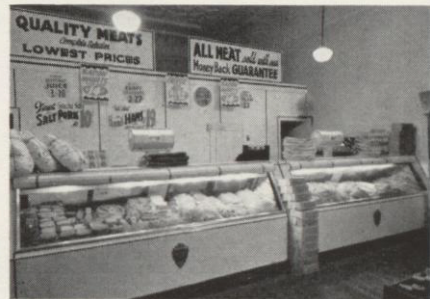
On May 15, 1937, the first Red Owl Agency Store was opened at Remer, Minn. Five years later there were 270—today on the 15th anniversary of the first agency's opening, there are 559. It is significant to note that of the Company's retail stores closed during the past five years, a major percentage have become Red Owl Agency Stores.



RED OWL RETAIL STORE in 1939. We cannot possibly sell merchandise to our customers today at prices like those shown in the big window of this Grand Forks, North Dakota store.



STORE INTERIORS looked like this in 1926. We were proud of our stores then as now.



ATTRACTIVE COUNTERS and displays have always been a "must", as this old meat counter shows.



THE KIDDY CORRAL, a popular Red Owl Idea, provides entertainment for children while Mother shops. We inaugurated it in 1951 in our Miracle Mile Shopping Center store in St. Louis Park.



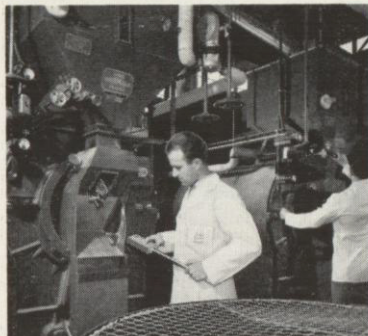
THE MAGAZINE and periodical rack in our Green Bay, Wisc., store. We were one of the first in our operating area to put this idea into practice.



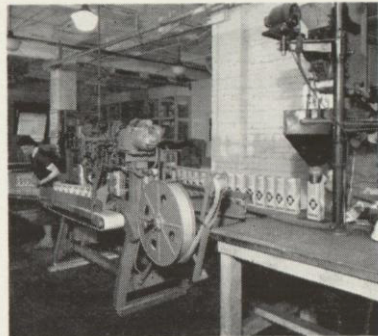
THE CUSTOM or Home Bakery, in addition to the usual self-service bakery in a super-market. This was originally developed in our Hopkins bakery for Twin Cities area Red Owl Stores.



A SPARKLING, sanitary fruit and vegetable department in a Minneapolis area super-market. Red Owl has made every effort to provide modern, inviting surroundings for the customers.



OUR MODERN COFFEE roasting plant at Hopkins assures us of maintaining quality control. Left, above, a sample of freshly-roasted coffee being examined; on the right, fresh coffee being packaged for distribution to Red Owl Stores.



AN ISLAND DISPLAY of health and beauty aids for the convenience of our customers. This was another "First" among food stores in our operating area.



AN APPETIZING DISPLAY. The first completely self-service meat department in our operating area was opened in Green Bay in 1947.

FINANCIAL HISTORY OF RED OWL STORES, INC.

(Not Including Subsidiaries)

FISCAL YEAR ENDED IN	1928	1933	1938	1943	1948	1949	1950	1951	1952
SALES									
Retail Food Stores	5,885,401	8,717,505	11,993,447	15,791,427	46,390,660	50,732,109	50,500,660	55,288,148	65,264,698
Wholesale (Agency)			155,500	3,807,952	10,128,841	13,823,601	16,743,504	19,990,769	21,946,468
Other Sales					769,047	1,522,906	551,976	268,378	245,239
Total	5,885,401	8,717,505	12,148,947	19,599,379	57,288,548	66,078,616	67,796,140	75,547,295	87,456,405
Profit before prov. for taxes on income (Loss)	205,930	(924)	189,918	387,769	1,139,230	1,068,804	1,670,897	2,065,917	1,649,075
Taxes on Income	33,198	3,425	38,000	270,000	408,700	405,460	683,000	1,065,000	954,000
Net Profit or (Loss)	172,732	(4,349)	151,918	117,769	730,530	663,344	987,897	1,000,917	695,075
Average Sales Per Store	46,106	47,898	65,538	92,347	202,579	230,600	257,656	298,854	364,607
Fixed Assets—Net	178,849	321,301	354,059	565,337	2,354,881	3,303,862	3,320,957	3,845,325	4,100,199
No. Retail Food Stores at Close of Fiscal Year	115	182	183	171	228	199	189	181	179
No. of Agency Stores at Close of Fiscal Year			35	242	397	476	536	546	559

WHO OWNS RED OWL?

As of January 1952, there were 358 holders of Red Owl preferred stock, owning 11,551 shares, and 1336 holders of common stock, owning 414,335 shares. It is significant that of the 358 holders of preferred stock, 342 owned less than 100 shares each. Of the holders of common stock, 583 owned less than 100 shares, and 686 owned between 100 and 1,000.

It is also significant that Red Owl is almost wholly owned by residents of its operating area.

GEOGRAPHIC DISTRIBUTION OF STOCKHOLDERS

	Holders of Pfd. Stock	No. of Pfd. Shares	Holders of Common Stock	No. of Common Shares
Minnesota.....	205	9,019	941	318,926
Wisconsin.....	108	1,522	91	13,822
North Dakota.....	10	203	152	24,283
South Dakota.....	8	224	20	2,582
Montana.....	2	85	14	1,273
Iowa.....	2	65	5	1,232
Michigan.....	1	25	11	1,113
	336	11,143	1,234	363,231
All Other States....	22	408	102	51,104
	358	11,551	1,336	414,335

STATEMENT OF OPERATIONS AND EARNINGS REINVESTED IN BUSINESS

Red Owl Stores, Inc. and Subsidiary Companies

Year ended March 1, 1952 (with comparative figures for the previous year)

	Year Ended	
	March 1, 1952	Feb. 26, 1951
Net retail sales.....	\$65,340,696	55,359,134
Net wholesale sales.....	24,493,197	22,761,945
Gain on sale of property and equipment.....	31,699	18,965
Other income.....	29,907	22,933
Total Gross Revenue.....	89,895,499	78,162,977
Costs:		
Cost of goods sold, including warehousing and transportation expenses (note 5).....	77,515,733	66,690,805
Selling, general and administrative and other operating expenses (notes 4 and 5).....	10,531,519	9,266,431
Interest: { On long-term debt.....	87,793	38,667
{ Other.....	14,881	9,084
Other miscellaneous charges.....	25,304	407
Provision for taxes on income:		
Federal: { Normal tax and surtax.....	854,000	901,000
{ Excess profits tax.....	80,000	120,000
State.....	54,000	90,000
Total Costs.....	89,163,230	77,116,394
EARNINGS FOR YEAR.....	732,269	1,046,583
Deduct dividends on Red Owl Stores, Inc. capital stock:		
4 $\frac{3}{4}$ % cumulative preferred stock, Series A.....	55,459	68,178
Common stock—\$1.00 and \$.90 per share in respective years.....	413,340	355,174
	468,799	423,352
Earnings for year reinvested in business.....	263,470	623,231
Balance of earnings reinvested in business at beginning of year.....	4,289,960	3,666,729
Balance of earnings reinvested in business at end of year (note 3).....	\$ 4,553,430	4,289,960
Charges for depreciation and amortization of fixed assets and leasehold improvements included in costs above.....	\$ 593,869	545,772

See accompanying notes to financial statements.

STATEMENT OF FINANCIAL POSITION

Statement of Financial Position—March 1, 1952

	ASSETS	March 1, 1952	Feb. 26, 1951
CURRENT ASSETS:			
Cash in banks and on hand		\$ 1,870,795	1,214,055
United States Government securities, at cost		9,037	9,037
Accounts receivable:			
Customers		892,779	778,145
Due from vendors, claims, etc.		163,742	177,865
		<u>1,056,521</u>	<u>956,010</u>
Less allowance for doubtful accounts		95,753	94,173
		<u>960,768</u>	<u>861,837</u>
Merchandise inventories, less \$285,000 reserve (note 1)		7,052,519	6,395,906
Prepaid expenses		286,043	214,627
Total Current Assets		<u>10,179,162</u>	<u>8,695,462</u>
CASH SURRENDER VALUE OF LIFE INSURANCE		30,552	26,908
PROPERTY, PLANT AND EQUIPMENT—at Cost:			
Land		183,424	183,771
Buildings		72,071	126,723
Furniture, fixtures and equipment		3,830,629	3,388,024
Automotive equipment		1,436,964	1,318,201
		<u>5,523,088</u>	<u>5,016,719</u>
Less depreciation		2,262,416	1,973,113
		<u>3,260,672</u>	<u>3,043,606</u>
Leasehold improvements, at cost, less amortization		996,418	990,513
		<u>4,257,090</u>	<u>4,034,119</u>
OTHER ASSETS		82,724	54,061
		<u>\$14,549,528</u>	<u>12,810,550</u>

RED OWL STORES, INC. and Subsidiary Companies

(with comparative figures for the previous year)

	LIABILITIES	March 1, 1952	Feb. 26, 1951
CURRENT LIABILITIES:			
Notes payable:			
Current instalment of long-term notes.....	\$ —	—	100,000
Demand notes due to banks.....	—	—	300,000
		—	400,000
Drafts payable.....	48,642	—	—
Accounts payable.....	2,272,954	2,436,362	15,192
Dividend payable on preferred stock.....	13,604	616,634	718,101
Accrued expenses.....	616,634	1,039,130	1,145,185
Federal and State taxes on income, estimated.....	1,039,130	3,990,964	4,714,840
Total Current Liabilities.....	3,990,964	—	—
LONG-TERM NOTES PAYABLE:			
3 $\frac{7}{8}$ % notes due July 1, 1966, payable in annual instalments of \$240,000 on July 1 in each of the years 1955 through 1965 and unpaid balance on July 1, 1966 (note 3).....	3,000,000	—	—
4% notes due November 1, 1959 (paid in current year).....	—	800,000	—
STOCKHOLDERS' EQUITY:			
Capital Stock (notes 2 and 3):			
Preferred stock—par value \$100 per share:			
Authorized 25,000 shares, issued and outstanding at respective dates, 11,471 and 12,888 shares, 4 $\frac{3}{4}$ % cumulative, Series A.....	1,147,100	1,288,800	—
Common stock—par value \$3 per share:			
Authorized 750,000 shares, issued and outstanding at respective dates, 414,884 and 405,154 shares.....	1,244,652	1,215,462	—
	2,391,752	2,504,262	—
Additional amounts paid in by stockholders, less expenses in connection with stock issue (including, in current year, \$111,894 arising from conversion of preferred stock) (note 2).....	613,382	501,488	—
Balance of earnings reinvested in business, per accompanying statement (note 3).....	4,553,430	4,289,960	—
	5,166,812	4,791,448	—
Long-Term Lease Commitments (note 5).....		\$14,549,528	12,810,550

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Red Owl Stores, Inc. and Subsidiary Companies

1. Merchandise inventories at retail stores and two principal warehouses are based on book inventories adjusted to physical counts taken from time to time during the year in the case of the retail stores and on a continuous basis in the case of two principal warehouses; other inventories are based on year-end physical counts. The inventories are stated at cost (first-in, first-out basis) determined in the case of the retail stores by the application of mark-up percentages to retail book inventories.

2. The 4¾% cumulative preferred stock, Series A, is redeemable on call and on voluntary liquidation at \$106 per share to January 1, 1957, and \$105 per share thereafter, plus dividends accrued or in arrears to the redemption date. Shares of such preferred stock (taken at \$100 per share) are convertible into common stock at \$14.50 per share to December 31, 1952, \$16.00 per share from January 1, 1953 to December 31, 1954 and \$18.00 per share from January 1, 1955 to December 31, 1956 (at which date conversion privileges expire).

In connection with the foregoing, 79,110 shares of authorized and unissued common stock are reserved for issuance upon conversion of preferred stock. The conversion prices are subject to adjustment in certain instances specified in the "Certificate of the Designations, Preferences and Relative,

Participating, Optional or Other Special Rights of the 4¾% Cumulative Preferred Stock, Series A, of Red Owl Stores, Inc.", which also sets forth certain restrictions on the issuance of additional shares of preferred stock, increase in funded debt and sale of property.

3. Restrictions on payment of dividends (except stock dividends) and purchase, redemption or retirement of capital stock are imposed by terms of the agreements relating to the 3⅞% notes. The amount available for such distribution at March 1, 1952 was \$615,913. In view of the foregoing, like restrictions under the preferred stock requirements of the certificate of incorporation as amended, and Board of Directors' resolution authorized thereunder, are not applicable.

The note agreements, among other things, provide for prepayment of the long-term debt at the option of the company at varying premiums.

4. Employee benefit costs included in selling, general and administrative and other operating expenses are as follows:

	YEAR ENDED	
	MARCH 1, 1952	FEB. 26, 1951
Officers' and employees' profit sharing	\$134,000	240,000
Pension premium costs	165,000	167,375

The retirement pension plan, approved by stockholders and effective February 26, 1945, is qualified under the Internal Revenue Code and provides retirement benefits for eligible employees. The entire cost of the plan is borne by the company and past service costs approximating \$161,000 are being amortized over a ten-year period. While the company reserves the right to discontinue the plan (in which event all premiums paid inure to the benefit of employees), its continuance is anticipated.

5. Rent expense included in costs for the years ended March 1, 1952 and February 26, 1951 amounted to \$778,747 and \$706,824 for the respective periods. The approximate present minimum annual rentals under 96 leases expiring beyond February 28, 1955 are \$661,000 of which 63 leases with annual rentals of \$195,000 expire within five years, and 4 leases with present minimum annual rentals of \$190,000, with provision for reduction in rental over the remaining term of the principal lease, have terms extending beyond twenty years from that date. These amounts exclude maintenance costs, real estate taxes, insurance, etc., which are paid in accordance with the terms of most warehouse leases and certain store leases.

ACCOUNTANTS' REPORT

PEAT, MARWICK, MITCHELL & CO.

The Board of Directors
Red Owl Stores, Inc.:

We have examined the statement of financial position of Red Owl Stores, Inc. and subsidiaries as of March 1, 1952 and the related statement of operations and earnings reinvested in business for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

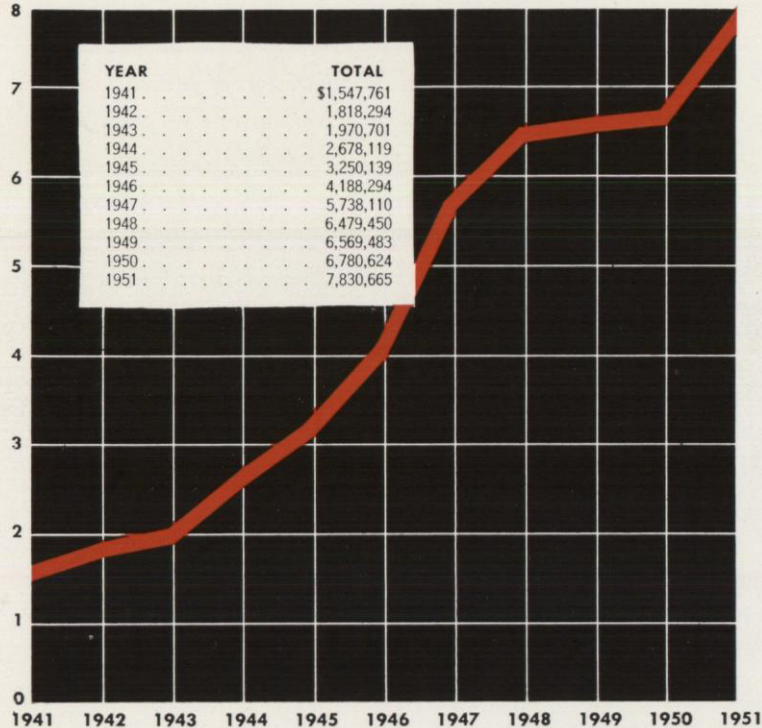
In our opinion, the accompanying statement of financial position and related statement of operations and earnings reinvested in business present fairly, on a consolidated basis, the financial position of Red Owl Stores, Inc. and subsidiaries at March 1, 1952 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

Minneapolis, Minnesota
April 25, 1952

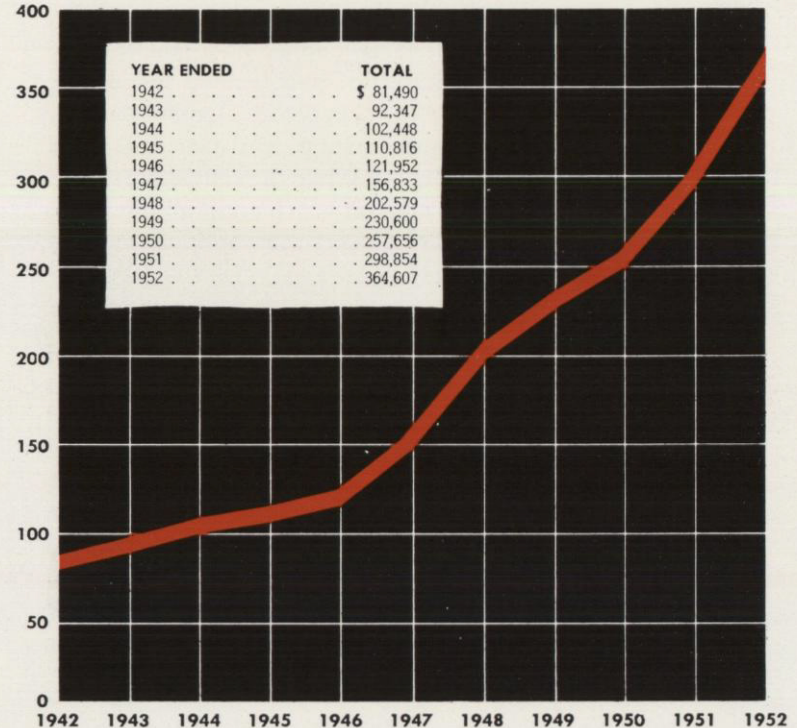
SALARIES AND WAGES

Calendar Years Ended December 31, 1941-1951



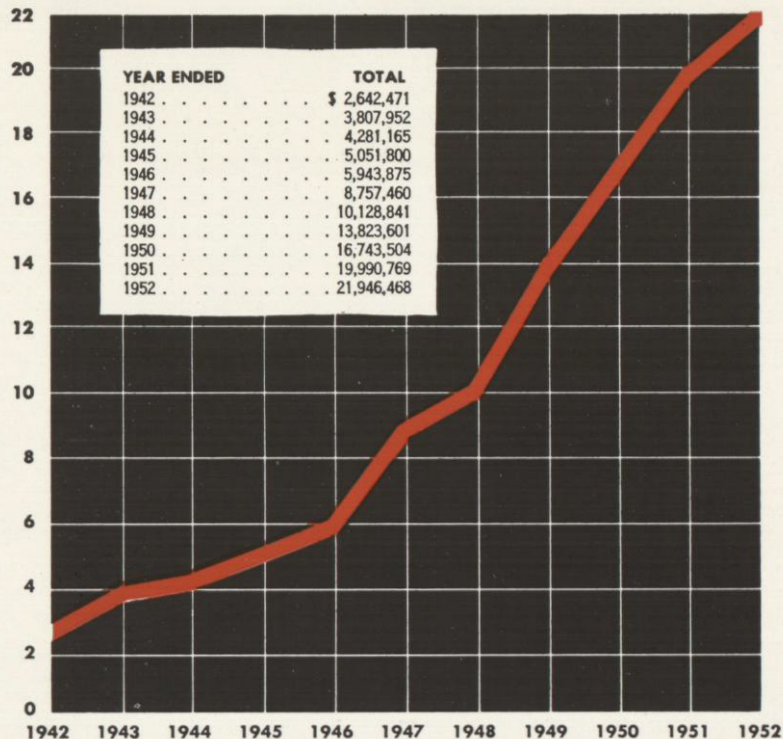
AVERAGE RETAIL SALES PER LOCATION

Fiscal Years Ended 1942 through 1952



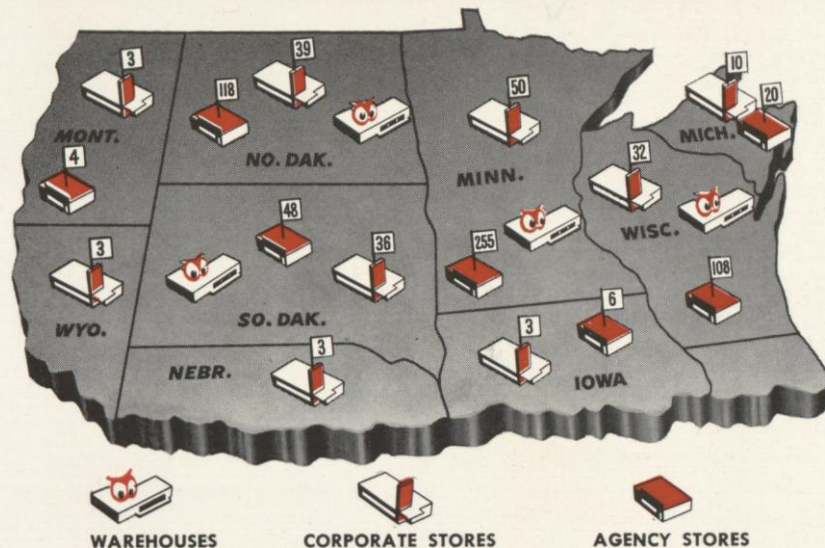
SALES TO AGENCY STORES

Fiscal Years Ended 1942 through 1952



RED OWL FACILITIES MAP

Location of Red Owl Stores



RED OWL now operates 179 corporate retail stores in nine states, with the bulk of them in Minnesota, the Dakotas, and Wisconsin. In addition, there are now 559 agency stores in the area, 13 more than a year ago.



No such thing as a RED OWL?



Actually, the Red Owl was adopted from a product sold by some of the Red Owl founders in the early 1920's, and could be found on watch fobs bearing the slogan, "Be wise, burn Red Owl Coal". In the course of his life with Red Owl Stores, however, the crimson bird was faced with one grave problem

Naturalists have stated positively that there isn't, never was and never could be. School classes have studied the problem, and quiz programs have discussed it, but nobody has ever settled the question. Ever since the owl was hung in front of the first store, he has caused customers, employees and casual observers to ponder, speculate and ask questions.

—his life expectancy. His lifespan of seven or eight years was about the same as that of a real owl.

The Red Owl progressed from his cage of the early years through a series of changes until about the time the first super-market was opened, when for some strange reason he decided to close one eye. This eye-closing created quite a stir, the owl being accused of almost everything—including winking at pretty girls. There was much discussion but little action until 1947, when the owl was re-designed again. This time he really got a new look, becoming so handsome that even competitors used him. However, he bore the load until the new, permanent one was designed. Today's Red Owl—distinctive, quickly recognizable and easy to reproduce in many sizes—should have a long and prosperous life.